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BY ELECTRONIC MAIL

September 30, 2020

Astrid I. Rodríguez Cruz
General Counsel
Puerto Rico Electric Power Authority

I. Re: Operational Power Purchase and Operating Agreements

Dear Ms. Rodríguez Cruz:

In accordance with the contract review policy of the Financial Oversight and Management Board for Puerto Rico ("FOMB") established pursuant to Section 204(b)(2) of PROMESA, we have reviewed the proposed amendments to a series of Power Purchase and Operating Agreements between the Puerto Rico Electric Power Authority ("PREPA") and the following companies: (i) AES Ilumina, (ii) Humacao Solar Project, LLC, (iii) Horizon Energy, LLC, (iv) Oriana Energy, LLC, (v) Pattern Santa Isabel, LLC, and (vi) San Fermín Solar Farm, LLC (the "Proposed Amendments").

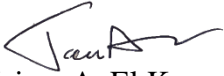
After reviewing the Proposed Amendments, the FOMB concludes "Approved with Observations". Observations related to the Proposed Amendments are set forth in Appendix A attached hereto.

Our review is solely limited to the compliance of the Proposed Amendments with the applicable fiscal plan and no other matters. For the avoidance of doubt, the review performed by the FOMB does not cover a legal review of the contractual documentation or the contracting process, including without limitation: (i) compliance with contracting requirements under applicable laws, rules, and regulations, both federal and local and (ii) compliance with applicable laws, rules, and regulations governing procurement activities, both federal and local. In addition, the FOMB has not engaged in any due diligence or background check with respect to the contracting parties nor whether the contracting parties comply with the requirements under the applicable contract. Any material changes to the Proposed Amendments or the original contracts must be submitted to the FOMB for review and approval **prior to execution**.

This letter is delivered as of the date hereof and we reserve the right to provide additional observations and modify this letter based on information not available when the review was conducted. In addition, during the course of our review, we may receive information which we may determine to refer to the relevant authorities.

This letter is issued only to PREPA and solely with respect to the Proposed Amendments.

Sincerely,

A handwritten signature in black ink, appearing to read 'Jaime A. El Koury', with a stylized flourish at the end.

Jaime A. El Koury
General Counsel

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AES ILUMINA; HUMACAO SOLAR PROJECT, LLC; HORIZON ENERGY, LLC; ORIANA ENERGY, LLC; PATTERN SANTA ISABEL, LLC; SAN FERMÍN SOLAR FARM, LLC - PUERTO RICO ELECTRIC POWER AUTHORITY

Background and Contract Terms

This review covers the proposed amendments to six Power Purchase and Operating Agreements (the “PPOA’s”) between the Puerto Rico Electric Power Authority (“PREPA”) and the following companies: (i) AES Ilumina, (ii) Humacao Solar Project, LLC, (iii) Horizon Energy, LLC, (iv) Oriana Energy, LLC, (v) Pattern Santa Isabel, LLC, and (vi) San Fermín Solar Farm, LLC (the “Proposed Amendments”).

The PPOA’s are related to the purchase of renewable energy from photovoltaic solar and wind projects located throughout Puerto Rico. The Proposed Amendments stem from PREPA’s intent to align the PPOA’s with the objectives of its Fiscal Plan. As such, PREPA recently reached agreements in principle with 7 of the 9 counterparties to the PPOA’s (representing over 250 MW of renewable energy generation) to amend their agreements to provide a targeted 10% savings over the remainder of the contracts.¹ However, PREPA’s contract review request only addresses 6 renegotiated PPOAs. We note that the projects contemplated in the Proposed Amendments are already operating. As such, they are connected to the Puerto Rico energy system and continue to provide the people of Puerto Rico with renewable energy.

Specifically, the Proposed Amendments present the following changes to the PPOA’s:

1. AES Ilumina, LLC:

The initial contract was executed on June 3, 2010 and has an Initial Term of 20 years and an Extended Term of 5 years. This amendment will be effective from the date of execution and contemplates a Capacity Expansion option of 5 MW_{AC} exercisable on or before January 1, 2022 and completed no later than December 31, 2022. This additional capacity must comply with 2020 Minimum Technical Requirements for Interconnection of Photovoltaic Facilities, incorporated as part of the contract (“MTRs”).

Compensation for base capacity contemplates a 10% reduction for the remainder of the contract’s Initial Term and a transition to \$0.10 per kWh upon commencement of the Extended Term (escalated by 2% each July 1st, capped at \$0.141 per kWh). On the other hand, compensation for Expansion Capacity is established at \$0.10 (escalated by 2% each July 1st, capped at \$0.141 per kWh, applicable to test energy). Finally, the Proposed Amendment also states that PREPA may transfer the PPOA to any Governmental Authority of Puerto Rico or future operator of the electric power transmission and distribution system without consent.

¹ To alleviate some of the negative impact to these projects, PREPA gave the developers negotiating these reductions flexibility to (a) shape the savings at their discretion, so long as a ten percent (10%) Net Present Value discount was achieved, (b) offer modest increases in the generating capacity (subject to transmission feasibility and 2020 MTR Compliance for such increased capacity) with the related energy and Renewable Energy Credits to be sold at market prices, as determined by the PREPA Board (“Board Determined Market Prices”), and (c) make modest extensions to the term of the Operating PPOAs with the energy and Renewable Energy Credits sold during such term extensions being priced at Board Determined Market Prices.

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2. Horizon Energy, LLC

The initial contract was executed on October 15, 2010 and has an Initial Term of 25 years and an Extended Term of 5 years. This amendment will be effective from the date in which the Assumption Order is final and non-appealable and the Puerto Rico Energy Bureau and the FOMB approve the amendment.² It also contemplates a Capacity Expansion option of 10 MW_{AC} exercisable on or before December 31, 2022, and completed no later than December 31, 2023. This additional capacity must comply with 2020 MTRs. In addition, construction of expansion capacity must comply with certain obligations that were applicable to the construction of the initial capacity.

Regarding compensation, the amendment contemplates a 10% reduction for the Remainder of Initial Term and \$0.10 per kWh (esc. 2% each July 1st, capped at \$0.141 per kWh) for the Extended Term. Further, this amendment contemplates that PREPA may transfer the PPOA to any Governmental Authority of Puerto Rico or future operator of the electric power transmission and distribution system without consent. Finally, this amendment includes pandemics or contagion as Force Majeure.

3. Humacao Solar Project, LLC

The initial contract was executed on October 24, 2011 and has an Initial Term of 20 years and an Extended Term of 10 years. This amendment will be effective from the date of execution. Regarding compensation, the amendment contemplates a 9% reduction (average) for the Remainder of the Initial Term and a compensation of \$0.141 per kWh for the Extended Term.

In addition, this amendment contemplates that PREPA may transfer the PPOA to any Governmental Authority of Puerto Rico or future operator of the electric power transmission and distribution system without consent and that PREPA has a termination right if Fonroche does not obtain PREPA's approval of certain acceptance tests within one year of the effective date.

4. Oriana Energy, LLC

The initial contract was executed on November 16, 2020 and has an Initial Term of 20 years and 2 Extended Terms of 5 years each. This amendment will be effective from the date in which the Assumption Order is final and non-appealable and PREB and FOMB approve the amendment.³ This amendment contemplates a Capacity Expansion option of 10 MW_{AC} exercisable on or before December 31, 2022, and completed no later than December 31, 2023. This additional capacity must comply with 2020 MTRs. In addition, construction of expansion capacity must comply with certain obligations that were applicable to the construction of the initial capacity. The Expansion Capacity has an Initial Term of 20 years and an Extended Term(s) of 7 years.

Compensation for base capacity for the remainder of Initial Term will see a 9.6% reduction, whereas compensation for the Extended Term = \$0.10 per kWh (esc. 2% each July 1st, capped at

² This Proposed Amendment states that PREPA must use reasonable efforts to obtain the issuance of the Assumption Order.

³ This Proposed Amendment states that PREPA must use reasonable efforts to obtain the issuance of the Assumption Order.

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\$0.141 per kWh). Compensation for Expansion Capacity shall be \$0.10 (esc. 2% each July 1st, applicable to test energy, capped at \$0.141 per kWh) and has a Test Energy Payment requirement.

PREPA may transfer the PPOA to any Governmental Authority of Puerto Rico or future operator of the electric power transmission and distribution system without consent. Finally, this amendment states that (i) pandemics or contagions are included as Force Majeure and Oriana may deliver a surety bond as Operation Security.

5. Pattern Santa Isabel LLC

The initial contract was executed on October 24, 2011 and has a Term of 35 years with optional 5-year extensions. This amendment will be effective from the date that the Assumption Order for this contract is final and non-appealable. Regarding compensation, the amendment contemplates an 18% average reduction. In addition, PREPA is entitled to credit for the amount that would have been saved, after calculating the difference between (a) the sum (of (i) the Energy Payment for Net Electrical Output and (ii) the amount payable for Green Credits and (b) an amount equal to the product of (i) the Net Electrical Output (expressed in kWh) for each Billing Period (or part thereof) and (ii) the applicable price, for the corresponding Agreement Year in which such Billing Period occurs. This credit shall apply during the period following **execution** of the amendment to the **effective date**; provided that such credit must be prorated equally over the corresponding number of future Billing Periods or fractions thereof that occurred between the execution date and the effective date until the amount of the accrued credit equals zero dollars. PREPA may transfer the PPOA to any Governmental Authority of Puerto Rico that becomes the operator of the electric power transmission and distribution system without Seller's consent.

6. San Fermín Solar Farm, LLC

The initial contract was executed on October 24, 2011 and has a Term of 20 years with an Extended Term of 5 years and another optional 5-year extension. This amendment will be effective on the date of execution and contemplates a Capacity Expansion option of 4.5 MW_{AC} exercisable on or before May 1, 2021 and completed no later than May 1, 2022. This additional capacity must comply with 2020 MTRs. In addition, construction of expansion capacity must comply with certain obligations that were applicable to the construction of the initial capacity.

Compensation for base capacity for the remainder of Initial Term will see a 10% reduction, whereas compensation for the Extended Term = \$0.10 per kWh (esc. 2% each July 1st, capped at \$0.141 per kWh). Compensation for Expansion Capacity shall be \$0.10 (esc. 2% each July 1st, capped at \$0.141 per kWh).

PREPA may transfer the PPOA to any Governmental Authority of Puerto Rico or future operator of the electric power transmission and distribution system without consent.

Fiscal Plan Alignment

All assumptions contained in PREPA's Certified Fiscal Plan, as certified by the FOMB on June 29, 2020, regarding fuel and purchased power costs are derived from the energy dispatch model submitted by PREPA during certification, based on the Integrated Resource Plan approved by Puerto Rico Energy Bureau as of the date of certification.

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The negotiations between PREPA and the six operational PPOA energy providers led to an average rate reduction of 4-6 c/kWh for solar and 5c/kWh for wind, when compared to original contract prices, during Fiscal Years 2021-2049. In exchange for this reduction in price, PREPA agreed to expand solar capacity (at a 29.5 MW total) and increase contract terms (5-10 years per contract).

PREPA presented an estimated total savings of **\$200,000,000** when compared to original contract terms. After accounting for minor errors regarding capacity factors and terms, actual savings from original contracts are estimated at **\$285,000,000**. The renegotiated PPOA's also present significant savings when compared to the 2020 Certified Fiscal Plan (the "Fiscal Plan"),⁴ as the extensions agreed upon through renegotiation establish rates below what the Fiscal Plan assumes for existing solar generation across the period.⁵ When considering term extensions and expanded capacity granted, total savings of the renegotiated PPOAs amounts to a range between **\$495,000,000** and **\$525,000,000**⁶ during Fiscal Years 2021-2049, contingent upon the energy source displaced by the added capacity to be delivered. Although minimal, renegotiated results produce a 0.1-0.2 c/kWh reduction in rates over the term of the Fiscal Plan.

Regarding the additional capacity (29.5MW), PREPA has agreed to added development from the providers starting at a price of 10 c/kWh, escalating at 2% until reaching 14.1 c/kWh, which is higher than the Fiscal Plan's target of 8-9 c/kWh and represents an additional cost to PREPA of **\$43,000,000** across all contracts. Notwithstanding the opportunity cost, these renegotiated terms will result in savings to ratepayers.

The Proposed Amendments have the following costs throughout their respective terms:

- AES Ilumina, LLC \$90,000,000
- Humacao Solar Project, LLC \$310,000,000
- Horizon Energy, LLC \$70,000,000
- Oriana Energy LLC \$290,000,000
- Pattern Santa Isabel LLC \$490,000,000
- San Fermín Solar Farm, LLC \$110,000,000

All payments for the Proposed Amendments are and will be charged to PREPA's budget account number **01-2321-23235-000-000**.

The FOMB's review indicates that the Proposed Amendments are forecasted to provide savings to ratepayers and are compliant with PREPA's Certified Fiscal Plan.

PREPA is expected to inform FOMB of any budgetary differences other than those specified in Appendix A (Contract Submissions Questionnaire) and to request a re-review of these amendments should any changes occur.

⁴ 2020 FP assumes 147 MW solar at avg. rate of 21c/kWh for wind and 23c/kWh for solar for the entire period of FY22-49.

⁵ 60-80% of savings are captured during the last 10 years.

⁶ Nominal value; the range depends on the type of resource (i.e., fossil fuels or new solar) displaced by the additional capacity added to the system.

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This contract review was conducted on the basis of information submitted by the Government of the Commonwealth of Puerto Rico. FOMB has not independently verified the information included in the submission. Should FOMB become aware of any inaccuracies or misrepresentations – whether intentional or not – it would re-evaluate its assessment